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VEGAS VALLEY ANGELS
advisor

JULY 2008

Upcoming Membership Meeting:

Tuesday, July 15, 2008
3:00p.m. – 5:30p.m.
**Guests are invited to attend VVA membership meetings

Upcoming Networking Opportunities:

Wednesday, July 9:

N. Las Vegas Chamber Breakfast Expo
7:30-9:30a.m.
www.northlasvegaschamber.com

Tuesday, July 15:

Henderson Chamber Networking Breakfast
7-8:30a.m.
Call 565-8951 to RSVP

Wednesday, July 16:

TBAN July Luncheon
11:45a.m.- 1:20p.m.
www.tban.us

Thursday, July 17:

NDA July Breakfast
7:00a.m.
www.nevadadevelopment.org

Thursday, July 17:

LV Chamber/Vegas Young Professionals Mixer
5-8:00p.m.
www.lvchamber.com
735.2196

Wednesday, July 30:

LV Chamber New Member Breakfast
7-9:00a.m.
www.lvchamber.com

Dear VVA Members,

Welcome to the first edition of the VVA Advisor, a monthly newsletter intended to improve communications among our membership. In this first edition, we are featuring an article by Bill Payne regarding "Asset Allocation and Portfolio Strategy," a timely subject given the dynamics of today's market. Our plan is to feature different subjects and topics to provide thought provoking subject matter and also keep you informed with developments for of many of our funded companies.

I am pleased that we are experiencing improvement in both deal flow and the quality of many of our presenting companies. We are seeing more submissions from prospective companies applying through our web site as well as new deals being presented under syndication from other Angel groups. This month we will feature two presenting companies: Footbridge Studios from Las Vegas and FRA Systems (CreditPoint software), a syndicated deal from the i2E Angel group from Oklahoma.

I am hopeful we will see a renewed commitment from our membership to attend our monthly meetings and give serious consideration for many of the outstanding opportunities from the presenting companies.

Thanks for your continue support and I look forward to seeing you all at our July 15th meeting beginning at 3p.m.!

Best regards,
Joe Schillaci
Chairman



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Asset Allocation and Portfolio Strategy for Angel Investors

By William Payne, Vegas Valley Angels

When affluent entrepreneurs leave their successful businesses behind and discover the satisfaction of angel investing, they need to be aware of balancing and diversifying the distribution of their experience and capital as they help startup companies get off the ground.

As any experienced angel investor will tell you, asset allocation and portfolio strategy are important things to think about when investing. They are typically not serious concerns during an angel's first few investments, but after experiencing the highs of success and the agony of defeat one realizes the benefits of integrating angel investing into financial planning considerations.

Accredited investors that do not have much experience as angels are very curious about how much of their net worth should be dedicated to angel portfolios. Here are some of the truths about angel investing:

- Out of ten investments it is likely that three to four of these companies will go out of business and return no capital to investors.
- Additionally, four to five will only make a partial return of capital or return all capital plus a small return on investment, with a few of these companies having no return for years but just managing to stay alive.
- Hopefully, one to two of these ten investments will provide a substantial return on investment (ROI) often in the range of ten to 30 times the original investment.

Obviously the bulk of the reward is being provided by a small fraction of investments, so angel investors need a significant number of investments to succeed.

So, how much net worth should an angel investor dedicate to their angel portfolios? Some have as much as 50 percent of net worth committed to angel investing, although conservative pundits suggest that three to ten percent of net worth be committed to high-risk angel investments, leaving the rest of their portfolios in less risky investments. Regardless, investing in multiple seed and startup companies is a key angel strategy. Many feel that a portfolio of ten to 12 angel deals is adequate diversification to assure a reasonable ROI and that six or less angel investments is too risky.

A portfolio strategy emerges from observing prudent angel investors. Most angels commit no more than 15 percent of their net worth to startup ventures. Typically, an angel portfolio is made up of ten or more such investments at a minimum of \$25,000 per investment and reserve at least 50 percent for



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future rounds of investment in the same companies. Here is an example of a typical angel portfolio, followed by a more conservative portfolio, and then a risky portfolio:

Typical Portfolio

- \$25,000 per investment x 1.50 (a reserve of 50 percent) x 12 investments = 15 percent of net worth
- Net worth required = \$3,000,000

Conservative Portfolio

- \$25,000 per investment x 2.0 (a reserve of 100 percent) x 15 investments = 10 percent of net worth
- Net worth required = \$7,500,000

Risky Portfolio

- \$25,000 per investment x 1.35 (a reserve of 35 percent) x 6 investments = 25 percent of net worth
- Net worth required = \$1,000,000

The asset allocation and portfolio strategies listed above represent the levels of investment that most experienced angels make. This article is not intended to recommend minimum net worth requirements or imply that any of these tactics are appropriate and apply to all investors.

However, new angel investors and those considering making their first angel investment should consider this information when developing their own personal portfolio strategy. As they invest more than just money, angel investors should also be aware of the diversification of their time, efforts, and capital in all that they do to create a diversified angel portfolio.